

**Procedures for Receipt, Retention and Treatment of  
Complaints Regarding Accounting, Internal Controls and  
Auditing Matters**

**I. Statement of Principles**

The Sarbanes-Oxley Act of 2002 requires that the Audit Committee establish procedures for the receipt, retention and treatment of complaints received by StemCells, Inc. (the "Company") regarding accounting, internal controls and auditing matters and for the confidential anonymous, submission by employees of concerns regarding questionable accounting and auditing matters. This Policy sets forth the procedures established by the Audit Committee.

**II. Scope of Matters Covered by this Policy**

This Policy applies to all complaints received by the Company regarding accounting, internal accounting controls or auditing matters and all submissions by the Company's employees of concerns regarding questionable accounting or auditing matters. These matters include, without limitation, the following:

- Fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement of the Company;
- Fraud or deliberate error in the recording and maintaining of financial records of the Company;
- Deficiencies in or noncompliance with the Company's internal accounting controls, Code of Conduct, and/or related policies and procedures;
- Misrepresentation or false statement to or by a senior officer or accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company; and
- Deviation from full and fair reporting of the Company's financial condition, results of operations and cash flows.

**III. Submission of Complaints**

Good faith complaints by employees, shareholders and others regarding accounting, internal controls and auditing matters may be submitted to the Company by mailing them to the attention of the Corporate Secretary at the Company's offices at 3155 Porter Drive, Palo Alto, California 94304.

All employees are encouraged to raise concerns regarding questionable accounting and auditing matters. Employees may submit their complaints regarding questionable accounting and auditing matters on a confidential and anonymous basis via the address identified above. Confidentiality will be

maintained to the fullest extent possible, consistent with the need to conduct an adequate investigation of the complaint.

The Company will not discharge, demote, suspend, threaten, harass or in any manner discriminate against any employee in the terms and conditions of employment based upon any lawful actions of such employee with respect to good faith reporting of complaints regarding accounting, internal control and auditing matters or otherwise as specified in Section 806 of the Sarbanes-Oxley Act of 2002. Retaliation against employees who raise concerns will not be tolerated by the Company, whether such retaliation is by any officer, employee or agent of the Company.

#### **IV. Treatment and Retention of Complaints**

Promptly upon receipt of a complaint, the Chairperson of the Audit Committee will:

- (a) determine whether the complaint is covered by this policy,
- (b) when possible, acknowledge receipt of the complaint to the sender, and
- (c) determine whether the complaint may raise sufficient concerns to warrant an immediate investigation.

If the Chairperson of the Audit Committee reviews a complaint and , after conferring with the remainder of the Audit Committee if deemed appropriate, determines that an immediate investigation is warranted, he or she will direct the Internal Auditor, the Chief Legal Officer, or other persons to conduct an investigation of the complaint and report the findings of such investigation to the Audit Committee.

At each quarterly Audit Committee meeting, the Chairperson of the Audit Committee will submit all complaints received since the previous quarterly Audit Committee meeting to the Audit Committee. The Audit Committee will review each such complaint and determine whether an investigation or other action is warranted, and, if so, will direct the General Counsel or another person or persons to conduct an investigation of the complaint and report the findings of such investigation to the Audit Committee, or take such other action as the Audit Committee shall deem appropriate. The Audit Committee will review and discuss any on-going complaint investigations and the resolution of any investigations. The General Counsel will maintain a log of all complaints, tracking their receipt, investigation and resolution. The Company will retain copies of the log and any complaints for at least two fiscal years.

As authorized in the Audit Committee Charter, the Audit Committee has authority to retain independent advisors to investigate any complaint. After receipt and

review of investigation findings, the Audit Committee will direct Management to take corrective action when and as warranted by the Committee.